CLEANTECHIQ

Report: Don’t Give up on Cleantech Quite Yet

Katie Gilbert | Oct. 25, 2013

That’s the central message of a new report called “Cleantech Redefined” from cleantech research and advisory firm Kachan & Co., corporate responsibility-focused nonprofit As You Sow, and the Responsible Endowments Coalition, an advocacy group lobbying for sustainable investing within higher education. The report’s subtitle—“Why the next wave of cleantech infrastructure, technology and services will thrive in the twenty-first century”—is an apt summary of what the report’s authors predict is in store for cleantech investors.

The report entreaties investors to take a step back from the myopic focus on how the cleantech space—and its most visible representatives—performed in recent months or years. Rather, investors should consider patterns of cleantech investment and performance with the help of a much wider lens.

“It has not been an easy decade for clean technologies,” the report’s authors write. “There have been 10 years of underwhelming returns broadly across the theme, with reasons varying from uncertainty in national policies to overcapacity to overhyped technologies.”

But against that acknowledgment, the report’s heady optimism is borne out of the authors’ conviction that we’ve seen all this before—in other innovative and at-one-time disruptive technology sectors like biotech, the dot-com boom, and so on—and that if past is any precedent, cleantech is here to stay.

The report offers three central arguments, with supporting evidence, to establish its claim:

1. The current “trough of disillusionment” is just a phase

The report posits that cleantech is following predictably along the Gartner hype cycle. The cycle begins with a sharp leap called the “peak of inflated expectations” and then makes a sharp fall into the “trough of disillusionment.”

That trough is where cleantech has been for the last few years, the report argues, but cleantech fund performance in recent month suggests the theme is climbing out of that valley, headed upward into the “slope of enlightenment,” which is typically followed by the more-modest, but long-term, “plateau of productivity.” In other words, the current dip is to be expected, and investors would do well to stick it out.

As the report explains: “The lessons for cleantech are similar to those from the dot com era. In the quest for revenue and investment, growth is good, but weaker and overhyped concepts deserve to be sidestepped. Both the IT and cleantech bubbles have taught markets that traditional fundamentals remain key to success: quality management and quality businesses at the right price. Great ideas come and go. But some stick.”

2. The VC bubble is bursting—and that’s good

Dampened VC investing in cleantech has been widely regarded as a negative harbinger for the sector, but the report makes the case that the downward trend is likely a sign of maturity: While VC supports emerging technologies, it begins to recede as other, more traditional forms of investment move in.

“It happened in the Internet era, and this transition has begun in cleantech,” the report says. “Venture capital is playing less of a leading role in driving cutting-edge technology and is being augmented by corporate investors.”

In 2008, non-corporate VC capital accounted for 64.4 percent of the cleantech funding in California; 27 percent was corporate funding. In 2012, 34.3 percent of clenatech investment came from non-corporate VCs, and corporate funding had risen to 35.5 percent, according to the report.

3. Many clean technologies have been held up by the "chasm"

The "technology adoption lifecycle model," developed by marketing strategy firm Regis McKenna, illustrates a frequent pitfall for innovative technologies—the treacherous gap between the uptake of early adopters and the embrace of the early majority.

"If the vast majority of clean technologies, services and infrastructure plays have yet to cross the chasm, it means risk and expense getting there, but it also means massively larger market adoption on the other side," writes Dallas Kachan, one of the co-authors of the report, on this blog.

But the fact that many clean technologies are currently in the midst of facing this chasm may mean that this is an opportunity-rich time for investors considering the space, explains the report.

"There are now investment opportunities available to investors interested in both early ventures and established organizations," the report's authors write. "This is an exciting time to invest in cleantech because investors can position themselves to reap upside without having to suffer losses in the development stages of many technologies."